

delivered for Tuesday February 15

ANNUAL REPORT
OF

UNION PREMIER FOOD STORES, Inc.



FOR THE FISCAL YEAR 1937

Ended December 31, 1937

UNION PREMIER FOOD STORES, Inc.

Executive Offices: 58th Street & Grays Avenue

Philadelphia, Pa.

OFFICERS

SAMUEL FRIEDLAND	✓	.....	President
GEORGE FRIEDLAND	✓	.....	Vice-President
HESS KLINE	✓	.....	Treasurer
MYER M. GORDON	✓	.....	Secretary
LOUIS STEIN		.....	General Counsel

DIRECTORS

SAMUEL FRIEDLAND	✓	.....	Moorestown, N. J.
GEORGE FRIEDLAND	✓	.....	Philadelphia, Pa.
HESS KLINE	✓	.....	Philadelphia, Pa.
MYER B. MARCUS	✓	.....	Philadelphia, Pa.
MYER M. GORDON	✓	.....	Philadelphia, Pa.
CHARLES J. McCUE	✓	.....	Philadelphia, Pa.
LOUIS STEIN		.....	Union City, N. J.

TRANSFER AGENTS

REGISTRAR & TRANSFER COMPANY
7 Dey Street, New York, New York
15 Exchange Place, Jersey City, New Jersey

REGISTRAR

THE CONTINENTAL BANK & TRUST COMPANY OF NEW YORK
30 Broad Street, New York, New York

Philadelphia, Pa.
February 10, 1938

To the Stockholders of
Union Premier Food Stores, Inc.

Your company operates on a fiscal year having thirteen periods of four weeks each. This report covers the fifty-two (52) week periods which began January 4, 1937, and ended December 31, 1937.

The financial condition of your company as at December 31, 1937, and the operations of your company for the fifty-two week period ended on said date are reflected in the consolidated balance sheet and profit and loss statement appended hereto, certified by Messrs. Lybrand, Ross Bros. and Montgomery, certified public accountants.

EARNINGS AND DIVIDENDS

The following is a condensed summary of the company's earnings for the fiscal year ended December 31, 1937, compared with its earnings for the fiscal year ended January 3, 1937 :

	Earnings	Earnings Per share*
Fiscal year (1937) ended December 31, 1937 52 weeks	\$160,441.41	\$1.615
Fiscal year (1936) ended January 3, 1937 53 weeks	\$361,673.39	\$1.269

* Based on 285,000 shares outstanding December 24, 1937

Your company declared and paid dividends aggregating \$426,300 for the year 1937, which is equivalent to \$1.50 per share on the respective shares outstanding at the time the respective dividends were paid. Of said total dividends of \$1.50 per share, 90c per share was declared in the form of an optional stock dividend, the stockholders being offered the option of receiving the dividend either in cash or in common stock on the basis of 1/10th of a share additional common stock for each share held; the holders of 255,400 shares out of a total of 285,000 shares (approximately 89%) elected to accept the dividend in stock.

SALES ANALYSIS

The following is a condensed analysis of the sales (and percentage of increase of sales) of your company and its predecessor companies and wholly-owned subsidiaries for the years 1934, 1935, 1936 and 1937. The years prior to 1936 are included since this is your company's first annual report subsequent to public financing.

By 4-week Periods		1937	1936	%	1935	1934
1st 4 wks.		847,831.86 (15)*	563,879.61 (10)*	50.4	302,867.35 (5)*	235,152.69 (2)*
4-8 "		999,643.33 (15)	599,013.17 (10)	66.9	362,852.05 (5)	243,489.08 (2)
8-12 "		987,242.12 (15)	617,225.28 (10)	60.0	350,431.87 (5)	269,127.58 (2)
12-16 "		975,881.68 (15)	591,115.53 (10)	65.1	422,753.95 (6)	252,792.48 (3)
16-20 "		993,834.42 (15)	609,205.67 (11)	63.0	395,542.71 (7)	271,997.25 (3)
20-24 "		999,880.08 (16)	628,458.32 (11)	59.1	393,889.80 (7)	252,219.03 (3)
24-28 "		1,036,511.45 (17)	641,896.18 (12)	61.5	405,419.26 (7)	261,719.71 (3)
28-32 "		985,912.22 (17)	661,233.36 (12)	49.1	385,108.51 (7)	237,099.39 (3)
32-36 "		1,007,324.55 (18)	665,807.76 (12)	51.3	454,108.54 (8)	251,429.62 (3)
36-40 "		1,172,337.59 (18)	741,307.88 (13)	58.1	458,741.39 (8)	260,257.31 (4)
40-44 "		1,270,161.92 (20)	737,140.77 (13)	72.3	502,578.49 (8)	290,914.29 (4)
44-48 "		1,276,871.97 (21)	732,726.27 (13)	74.3	626,323.39 (9)	349,424.80 (5)
48-52 "		1,236,890.77 (22)	715,029.68 (11)	66.0	615,227.26 (9)	348,043.31 (5)
52-53			182,549.62 (14)*			

* Number of Super-Markets operating during this period.

*+ This figure represents the sales in the 53rd week in 1936

Cumulative	1937	1936	%	1935	1934
1st 4 wks.	847,831.86	563,879.61	50.4	302,867.35	235,152.69
4-8 "	1,847,475.19	1,162,892.78	58.9	665,719.40	478,641.77
8-12 "	2,834,717.31	1,780,118.06	59.0	1,016,151.27	747,769.35
12-16 "	3,810,508.99	2,371,233.59	60.7	1,438,905.22	1,000,561.83
16-20 "	4,804,433.41	2,980,439.26	61.2	1,834,447.93	1,272,559.08
20-24 "	5,804,313.49	3,608,897.58	60.8	2,228,337.73	1,524,778.11
24-28 "	6,840,824.94	4,250,793.76	60.9	2,633,756.99	1,786,497.82
28-32 "	7,826,737.16	4,912,027.12	59.3	3,018,865.50	2,023,597.21
32-36 "	8,834,061.71	5,577,834.88	58.4	3,472,974.04	2,275,026.83
36-40 "	10,006,399.30	6,319,142.76	58.4	3,931,715.43	2,535,284.14
40-44 "	11,276,561.22	7,056,283.53	59.8	4,434,293.92	2,826,198.43
44-48 "	12,553,433.19	7,789,009.80	61.2	5,060,617.31	3,175,623.23
48-52 /3"	13,790,323.96	8,716,589.10	58.2	5,675,844.57	3,523,666.54
To adjust to audit figures	29,434.27	12,570.10		6,164.57	3,735.54
Totals (Aud.)	13,760,889.69	8,704,019.06		5,669,680.00	3,519,931.00

* This total is for 53 weeks in 1936.

ANNUAL SALES

1932	1,626,320	
1933	2,292,715	40.97%
1934	3,519,931	53.53%
1935	5,669,680	61.07%
1936	8,704,019	53.51%
1937	13,760,889	58.10%

The increase in sales is attributable only partly to the opening of additional food-merchandising units. With few exceptions individual units established in 1936 and earlier showed sales increases in the year 1937.

FINANCIAL POSITION

In connection with the opening of 8 new markets and the improvement of the existing markets and the warehouse your company spent approximately \$278,000.00 (net) for fixed assets during 1937. A large portion of this sum was made available to your company from earned income as a result of the optional stock dividend and the retention of profits. A summary of your company's financial position as at December 31, 1937 is obtained from the following items taken from the year-end statement.

Total current assets	\$1,281,041.61
Total current liabilities	144,777.80*

* Includes reserve of \$152,842.74 for taxes.

CHANGES IN CORPORATE STRUCTURE

For purposes of centralization and ready control, your company formed two wholly-owned subsidiaries, The Food Fair, Inc. of Penna. and The Food Fair, Inc. (N. J.) to which all the units formerly operated by your company's subsidiaries were transferred as of the opening of business on January 3, 1938.

CHANGES IN CAPITALIZATION

Your company fulfilled all its obligations incident to the sale to the public of 78,000 shares of common stock, and on April 20, 1937, after the completion of the underwriting transaction, there were outstanding 282,000 shares of common stock and options to purchase 50,000 shares of common stock. On November 24, 1937, 3,000 shares were issued to officers of your company as part compensation for services rendered during 1937 and on December 27, 1937, 25,540 shares were issued in connection with the optional stock dividend so that at the year end there were outstanding 310,540 shares of common stock and options to purchase 50,000 shares of common stock.

OPERATING UNITS

Your company's management is convinced that the super-market self-service type of merchandising unit is most economical for the consumer and most profitable for the merchandiser. In keeping with this policy, your company has closed or disposed of all of its conventional service type units and, during 1937, has opened eight new super markets. The satisfactory operation of these new units confirms the judgment of your company's management and justifies continued expansion along the same lines.

It has been the policy of the company, whenever possible, to lease locations rather than to purchase real estate. All of the merchandising units operated by your company, except one, are under lease; the only unit not under lease is located in a building purchased by your company in July, 1937. In several instances it has proved impossible to obtain certain choice locations under lease; in five of such cases the premises in question were purchased by corporations controlled by officers of your company and then leased to your company by these corporations. In each of such leases the terms and rentals are substantially as favorable as those included in leases made by the company with other landlords.

MANAGEMENT & PERSONNEL

Your company has always pursued a policy of training its own store managers and executives and will continue to follow this policy. These men are thoroughly grounded in the aspects of the super-market field by apprenticeships and extensive training in the company's markets. It is endeavored, whenever possible, to advance men from the ranks to the position of store manager.

At the beginning of the year your company and its wholly-owned subsidiaries employed approximately 1300 persons; by the end of the year this number had increased to 1722. The general relationship between your company and its employees is reflected in the company's granting one week's salary as a bonus and a one week vacation to each person in its employ for one year or longer.

DEPRECIATION POLICY

The company's fixtures and other assets are maintained in good condition and at a high standard of efficiency at all times. In keeping with a conservative depreciation policy the life of equipment is estimated and reserves provided which will charge its original cost to operations ratably over the estimated life. The rate used with respect to equipment and improvements is the highest permitted under present tax regulations.

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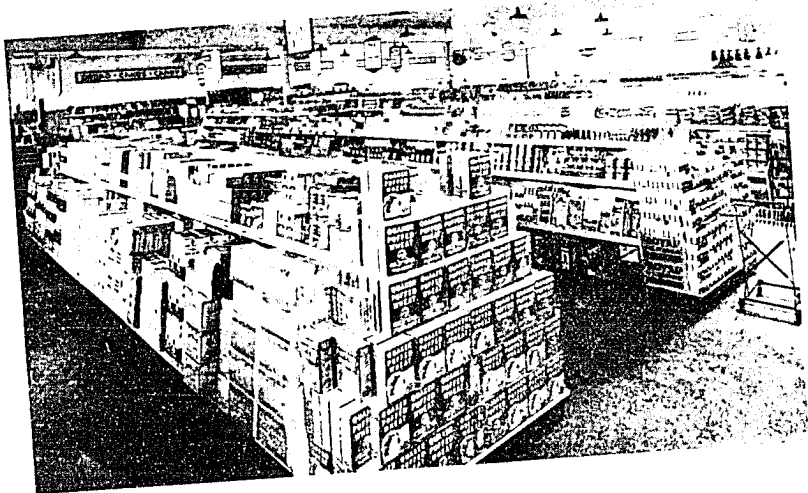
The management desires to express its appreciation for the loyal support of the stockholders and employees during the past year.


President

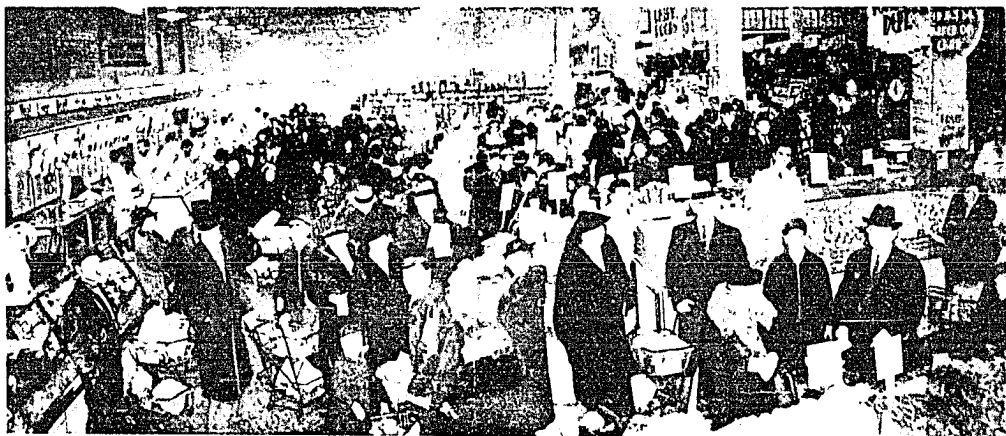
THE FOOD



A front view of our Food Fair Market



Pictured at the left of a self-service of groceries showing the massive displays of food products for perusal. Check cases make selection

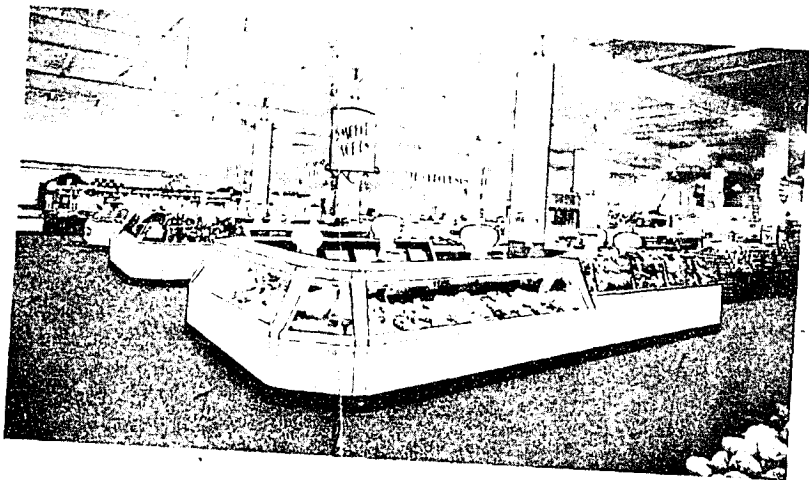


Action view in one of our Philadelphia Food Fair Markets



in Germantown, Philadelphia, Penna.

left is a section
grocery depart-
f our markets,
sive "eye-level"
l. At the right
service depart-
hable foods in
an, well lighted
tions easy.



showing a typical crowd of shoppers throughout the market.

UNION PREMIER FOOD STORES, INC.

and its Wholly Owned Subsidiaries

Consolidated Balance Sheet as at December 31, 1937

A S S E T S :

Current:

Cash on hand and demand deposits		\$ 481,197.61
Accounts receivable, trade		7,451.21
Inventories at cost or market whichever lower:		
Merchandise in warehouse	\$429,507.78	
Merchandise in stores	269,959.16	
Merchandise in transit	52,745.91	
Store supplies	<u>19,225.08</u>	
		771,437.93
Other current assets:		
Loans to others	150.00	
Notes and accounts receivable for sale of trucks	<u>20,804.86</u>	
		20,954.86
Total Current Assets		<u>\$1,281,041.61</u>
Security investments		1,090.00
Real estate, store and warehouse fixtures and equipment, improvements to leased properties and automobiles, at cost	598,648.02	
Less Allowance for depreciation and amortization	<u>107,966.41</u>	
		490,681.61
Prepaid and deferred charges		26,749.13
Other assets:		
Deposits with public utilities, etc.	1,773.20	
Cash surrender value of insurance on officer	<u>3,184.71</u>	
		4,957.91
		<u>\$1,804,520.26</u>

UNION PREMIER FOOD STORES, INC.

and its Wholly Owned Subsidiaries

Consolidated Balance Sheet as at December 31, 1937

LIABILITIES :

Current:

Notes payable:

Trade acceptances	\$ 42,643.90
For equipment	<u>38,158.64</u>

80,802.54 ✓

Accounts payable:

Trade	138,613.49
Merchandise in transit	<u>52,745.91</u>

191,359.40 ✓

Accrued liabilities:

Salaries and wages	19,773.12 ✓
Taxes, including Federal and state taxes on income, and excess and undistributed profits	<u>152,842.74</u> ✓

172,615.86 ✓

Total current liabilities

\$ 444,777.80 ✓

Deferred income

1,000.00 ✓

Notes payable for equipment, due after January 1, 1939

23,746.11 ✓

469,523.91

C A P I T A L :

Capital stock:

Common, par \$1

Authorized 750,000 shares	
Issued 310,540 shares	310,540.00 ✓

(Options are outstanding to purchase 50,000 shares
at \$13 per share on or before March 1, 1942)

Surplus, as annexed:

Capital surplus	986,479.20 ✓
Earned surplus	<u>37,977.15</u> ✓

1,334,996.35

\$1,804,520.26 ✓

CONSOLIDATED INCOME ACCOUNT

For the year (52 weeks) ended December 31, 1937

Sales		\$13,760,889.69
Cost of goods sold:		
Inventory, January 2, 1937	\$729,902.18	
Purchases, net of discounts	10,968,575.20	
	<u>11,698,477.38</u>	
Inventory, December 31, 1937	699,466.94	
		<u>10,999,010.44</u>
Gross profit		\$ 2,761,879.25
Operating expenses:		
Maintenance and repairs	27,175.83	
Depreciation of equipment and amortization	50,998.25	
Taxes other than income taxes	66,038.23	
Rents	103,863.18	
Store wages	973,020.56	
Other operating expenses	741,993.51	
Officers' salaries:		
Cash	\$50,000.00	
*Stock, 3,000 shares at \$8.80 per share	<u>26,400.00</u>	76,400.00
Other general and administrative expenses	<u>165,558.32</u>	
		<u>2,205,047.88</u>
		556,831.37
		<u>1,648,216.51</u>
*Value per share determined at time of making salary agreements with officers		
Other income:		
Dividends	61.80	
Interest	1,971.94	
Rents received, concessions	26,431.78	
Profit on sale of equipment	1,002.34	
Miscellaneous	<u>574.43</u>	
		<u>30,042.29</u>
Income before interest and income and profits taxes, forward		\$586,673.66
Interest paid		<u>7,552.49</u>
Income before income and profits taxes		\$579,321.17
Provision for Federal income and excess and undistributed profits taxes and state income taxes (including Federal undistributed profits taxes of \$124.46)		<u>118,879.73</u>
Net income		<u>\$460,441.44</u>

CONSOLIDATED CAPITAL SURPLUS ACCOUNT

~~For the year (52 weeks) ended~~ December 31, 1937

Balance, January 2, 1937		\$ 86,303.76
Less additional taxes for 1935 chargeable against earned surplus from which this balance was created		2,334.68
Adjusted balance, January 2, 1937		\$ 83,969.16
Additions resulting from financing in April, 1937:		
Proceeds of sale of 78,000 shares of common stock and liquidation of \$35,200 of liabilities in exchange for 4,000 shares of common stock in excess of par value of stock issued	\$639,600.00	
Book value of 20,000 shares of Class B capital stock surrendered by stockholders in exchange for 200,000 shares of common stock par \$1	75,938.55	
	715,538.55	
Less expenses <i>of financing</i>	34,748.51	
	680,790.04	
Balance upon completion of financing		\$764,759.20
Add: *		
Recorded value of issuances of common stock in excess of \$1 par value		
Stock dividend, 25,540 shares	204,320.00	
Part payment of officers' salaries, 3,000 shares	23,400.00	
	227,720.00	
Less legal services in connection with issuances of stock	6,000.00	
	221,720.00	
	<i>not recorded value</i>	<i>221,720.00</i>
Balance, December 31, 1937		\$986,479.20

* For the purpose of charging earned surplus for the dividend paid in common stock the Board of Directors determined the fair value per share to be \$9 and for the purpose of charging earnings for the common stock issued to officers in partial payment of salaries directed that there be used \$8.80 per share, the value determined at the time of executing the salary contracts as represented by the price received from the underwriters at the time the salary contracts became effective.

CONSOLIDATED EARNED SURPLUS ACCOUNT

For the year (52 weeks) ended December 31, 1937.

Balance, January 2, 1937		\$5,422.24
Deduct adjustments of taxes applicable to 1936		1,586.53
Adjusted balance, January 2, 1937		\$3,835.71
Net income for the year ended December 31, 1937, as annexed		460,441.44
		464,277.15
Dividends:		
\$1.50 per share		
Includes optional stock dividend of 1/10 share of common stock in preference to 90 cents cash accepted in respect of 255,400 shares:		
Cash	\$196,440.00	
Stock	229,860.00	
	426,300.00	
Balance, December 31, 1937		\$87,977.15

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

**Union Premier Food Stores, Inc.,
Philadelphia.**

We have made an examination of the consolidated balance sheet of

UNION PREMIER FOOD STORES, INC.

and its wholly owned subsidiaries, as at December 31, 1937, and of the consolidated statements of income and surplus for the year (52 weeks) ended December 31, 1937. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and consolidated statements of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the consolidated position of the companies as at December 31, 1937, and the consolidated results of operations for the year ended that date.

LYBRAND, ROSS BROS. & MONTGOMERY

Philadelphia, Pa.

February 8, 1938.

SHOP AT THE FOLLOWING MARKETS — OPERATED BY YOUR
COMPANY AND ITS SUBSIDIARIES.

ALLENTOWN, PA. ✓

913 - 921 Walnut Street
7th and Allen Streets

BALTIMORE, MD. ✓

2515 Greenmount Avenue
Fleet & Haven Streets
405 North Franklinton Rd.
3901-25 Belvedere Avenue

BETHLEHEM, PA. ✓

79 West Broad Street

BRYN MAWR, PA. ✓

636 Lancaster Avenue

CAMDEN, N. J.

1706 Federal Street

COATESVILLE, PA. ✓

342 East Main Street

COLLINGSWOOD, N. J.

Park Ave. & White Horse Pike

COLUMBIA, PA. ✓

343 Locust Street

HARRISBURG, PA. ✓

27 - 29 North Cameron Street
302 Muench Street
205 South 17th Street

PHILADELPHIA, PA. ✓

7262 Frankford Avenue
Germantown Avenue &
Haines Street
73rd Street & Elmwood Ave.
853 South 55th Street
6425-29 Torresdale Ave.

READING, PA. ✓

125 - 127 South Fifth Street
10th & Penn Streets

YORK, PA. ✓

606 South George Street
143-161 Roosevelt Avenue